

# Argus Group Holdings Limited

Ticker: AGH - BH

Sector: Financials - Insurance

Fiscal Year-End: March 31, 2008

 Web Site: [www.argus.bm](http://www.argus.bm)

<b>Share Price (10/31/08):</b>	\$10.00
<b>Stock Rating:</b>	Hold
<b>Risk Profile:</b>	Moderate
<b>1-Year Price Target:</b>	\$10.00
<b>1-Year Implied ROR:</b>	6.4%

<b>Annual Dividend:</b>	\$0.64
<b>Current Yield:</b>	6.4%
<b>Payout Ratio:</b>	82%
<b>Ex-Dividend Date:</b>	12/31/08
<b>Frequency:</b>	Quarterly

<b>Shares O/S:</b>	21.4m
<b>Market Cap:</b>	\$214.4m
<b>BSX Weight:</b>	10.8%
<b>Book Value:</b>	\$12.16
<b>Price/Book:</b>	0.82x

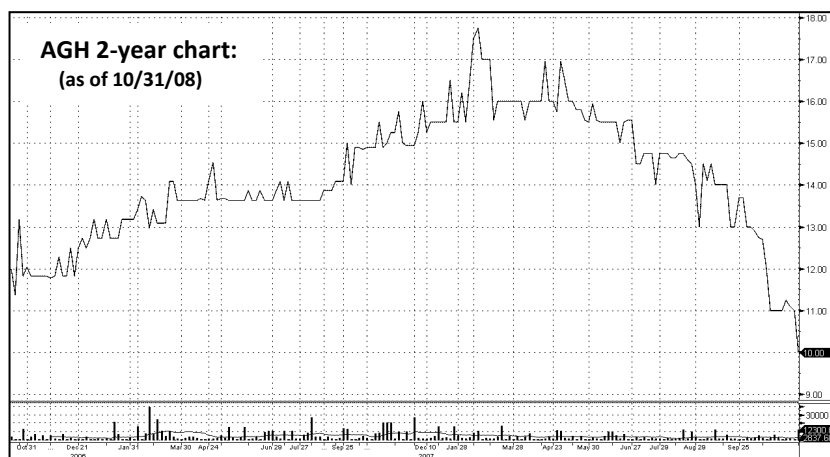
<b>52-Week High:</b>	\$17.75
<b>52-Week Low:</b>	\$10.00
<b>Avg. Monthly Volume:</b>	37.5k

<b>Current P/E Ratio:</b>	13.7x
<b>Shareholder's Equity:</b>	\$260.7m
<b>Total Assets:</b>	\$643.8m
<b>Return on Equity:</b>	5.9%
<b>Return on Assets:</b>	2.4%

Earnings Snapshot	2006	2007	2008	2009E	2010E
<b>EPS:</b>	\$1.28	\$1.75	\$0.73	\$0.71	\$1.04
<b>YoY Growth:</b>	54.2%	36.7%	(58.3%)	(2.7%)	46.5%
<b>P/E Ratio:</b>	9.0x	7.8x	21.9x	14.1x	10.0x
<b>Fiscal YE Price:</b>	\$11.57	\$13.64	\$16.00		

## Notes:

- AGH distributed a 1-for-10 stock dividend in Oct. 2007. Per-share figures have been adjusted accordingly.



## Company Description

Argus Group Holdings provides a broad range of insurance, retirement, and financial products and services dedicated to the needs of both individuals and businesses.

The company's segmented revenue and earnings for the latest fiscal 2008 are as follows (in millions):

Business Segment	Revenue	Earnings	Net Margin
Insured Employee Benefits	\$83.5	\$13.9	16.7%
Life and Pensions	\$14.1	(\$10.7)	n/a
Property & Casualty	\$35.4	\$11.4	32.1%
All Other	\$5.2	\$0.9	16.3%

In February 2008, Argus Group acquired MassMutual Bermuda Ltd, a Bermuda-based insurer offering variable life and annuity products. This company has been amalgamated into the Group's International Life Division.

## Argus Group Holdings Limited

### 2008 Results

Argus Group reported fiscal 2008 earnings of \$15.5 million, or \$0.73 per share, a decline of 58.3% from 2007's record earnings of \$36.9 million. Total revenue fell 10.1% from \$153.8 million to \$138.2 million. These disappointing results were largely the result of accounting changes – as the adoption of new “mark-to-market” rules had widespread effects on the company's 2008 financial report. Investment income fell by 87.7% from \$31.7 million to \$3.9 million, as equity prices tumbled and “held for trading” securities were recorded at market value. Due to the recognition of unrealized investment gains at the beginning of fiscal 2008, the Group's balance sheet was strengthened significantly. Total General Fund assets increased \$108 million, or 20%, to \$644 million and shareholder's equity rose by \$83 million, or 47%, to \$260.7 million.

Segmented analysis is as follows:

- **Property & Casualty** had an excellent year as revenues grew 25.4% year-on-year to \$35.4 million. Earnings more than doubled, from \$5.3 million to \$11.4 million. This strong performance was the result of underwriting growth in Gibraltar and Malta, in addition to a relatively benign year for major storms and catastrophic events.
- **Insured Employee Benefits** showed a revenue increase of 9.0% to \$83.5 million and profit growth of 46.6% to \$13.9 million. Overall, group benefit products sold well, with profit margins aided by lower than anticipated health insurance claims.
- **Life and Pensions** proved to be a big disappointment, with reported revenue falling from \$45.5 million to \$14.1 million and a “bottom-line reversion” – from a \$21.9 million profit in fiscal 2007 to a loss of \$10.7 million in 2008 (largely the result of “mark-to-market” rules, as discussed above.)

Argus announced the restructuring of certain non-performing mortgage loans in the amount of \$21 million. This restructuring will involve a reduced rate of interest and extended repayment terms. Further, the Group was required to create a loan-loss provision of \$13 million due to lower expectations of future amounts receivable on these mortgage loans.

### Forecast and Recommendation

As disclosed in last year's Blue Book, new Canadian GAAP accounting provisions – specifically the “mark-to-market” rule – have the potential to significantly impact the Group's reported revenue and income. Due to the worldwide financial crisis (which began in August 2007) investment income for fiscal 2008 was drastically lower than 2007. Given the continued market downturn through October 2008, we foresee a similar impact in fiscal 2009.

Argus Group shares currently boast a 6.4% dividend yield and are now trading below book value. However, we remain cautious on the stock, given the difficult economic environment and the potential for lower investment income. We forecast operating earnings of \$0.71 per share for fiscal 2009, with profits rising to \$1.04 per share in fiscal 2010 – as financial markets stabilize and the economy emerges from recession. We apply a 10.0x multiple to our 2010 EPS estimate for a price target of \$10.00 and a Hold rating.